

## **REMARKS**

At the outset, the undersigned wishes to thank Exr. Badii for his courtesy and time during the recent telephone interview of February 28, 2008. During the interview, the Examiner indicated that the KSR case would likely form the basis or justification for continued rejections of the claims under 35 USC §103(a).

The withdrawn claims are canceled herewith.

Claims 1-7 and 11-24 were rejected as being unpatentable over the applicant's background, and further in view of Boarman et al. Reconsideration and withdrawal of these rejections are respectfully requested, for the following reasons.

The hybrid seller's auctions defined in claims 1-7 and 11-24 solve problems that were not addressed in conventional auctions. The phrase "seller's auction" means that one or more sellers are offering to sell an item to one or more buyers. As stated in the background section of the present application, the seller's objective is to maximize the price at which the item is sold. The buyers' objective, in contrast, is to minimize the price to be paid for the item.

Conventionally, the seller tries to maximize the price for the item being auctioned using one of two types of auctions: the Dutch seller's auction and the English seller's auction.

### **Dutch Seller's Auction**

As shown in Fig. 1, a seed price is set by the seller, which seed price represents the initial asking price for the item to be auctioned. In a Dutch auction, the asking price decreases by a predetermined amount over time, starting from the seed price. Tied to a clock, the asking price decreases until one of the buyers stops the clock and bids at the then current asking price. In a Dutch seller's auction, the first buyer to bid at the current asking price is awarded the item. If the

asking price falls below a predetermined secret reserve level set by the seller, the auction may be cancelled.

However, should the “winning” buyer (the first buyer to bid at the then current asking price) later feel that he or she bid too soon and overpaid for the item in question, the buyer may refuse to honor his promise to buy and simply walk away.

### **English Seller’s Auction**

As shown in Fig. 2, an English seller's auction operates in the reverse manner. As shown, a seed price is set by the seller. In English seller's auctions, the seed price (initial asking price) may be set below the seller's reserve price, with the expectation that the bidding momentum will carry the price above the reserve price during the course of the auction. In an English seller's auction, buyers compete with one another and bid the price of the auctioned item ever higher until no other buyers are willing to bid higher than the last bid placed. The highest and last bid placed wins. That is, the buyer having placed the last bid is awarded the item that is the subject of the auction and must pay the seller the amount of the winning bid.

In this case also, there is the potential that the buyer will feel remorse and refuse to honor his or her promise to buy. Indeed, should the buyer later come to believe that they paid too much or that the auction, particularly in a decreasing market for the goods in question (i.e., the prevailing price for the type of goods in question is trending downward).

Whatever the format (i.e., Dutch or English), all auctions are concerned with securing the maximum price for the seller and the minimum price for the buyer, although both objectives may not be met in the same auction. As stated above, when the buyer having placed the winning bid, whether in a Dutch or English auction, later believes that he or she may have overpaid for the

item, there is an increased risk of default on the part of the buyer. This is inefficient and vastly increases the seller's transactional costs for selling the item. No single solution had, prior to the present application for patent, yet emerged that provided both buyer and seller with an optimum forum for buying and selling goods and services.

During the recent interview, Exr. Badii stated that the recent Supreme Court KSR case (KSR Int'l v. Teleflex Inc., 127 S. Ct. 1727, 82 USPQ2d 1385 (2007)) would likely be used by the Patent Office as justification for renewed 35 USC §103(a) rejections of the claims. During the interview, the Examiner stated that, according to standard articulated in KSR and adopted by the USPTO, a person of ordinary skill in the art at the time of the invention would have reasonably looked to prior art Dutch and English seller's auctions and would have, without more, joined the two together to form the claimed Hybrid seller's auction, as merely an exercise in common sense.

However, it is respectfully submitted that KSR does not operate as a *carte blanche* for the Office to apply hindsight reasoning to reconstruct a claimed invention after the fact. In the present case, there is not believed to be anything in the prior art that would lead a person of ordinary skill in the art to carry out steps of:

**periodically decreasing and posting the current asking price until a first bid is received from a first bidder at the then current asking price ...**

in a first phase of an auction, and

**awarding the item to the first bidder at the then current asking price unless, after the first bid is received, at least one additional bidder bids higher than the first bid within a predetermined time interval after the first bid is received.**

in a second phase of the same auction.

Indeed, the prior art teaches the person of ordinary skill two things (reserve price notwithstanding):

**1) in a Dutch seller's auction, the first bid (and only) wins the auction, and**

**2) in an English seller's auction, the last bid (i.e., highest) wins the auction.**

Period.

Even if the hypothetical person of ordinary skill in the art were armed with a healthy dose of common sense, as urged by the KSR Court, there is no teaching or suggestion outside of the present application, that would lead such a common sense person of ordinary skill in the art to devise a hybrid auction having a first phase as claimed and a second phase as claimed. Indeed, the claimed two phase auction can only be found in the applicant's specification, and no amount of common sense, it is respectfully submitted, will lead a person of ordinary skill in the art to:

- a) recognize the (previously unrecognized) failings of both conventional Dutch and English seller's auctions, and
- b) devise a solution to these recognized failings.

Recently, the USPTO's own BPAI, in Ex Parte Rinkevich et al., Appeal 2007-1317, has cautioned the PTO against impermissible hindsight reconstruction after the fact, citing the KSR case: "[a] factfinder should be aware, of course, of the distortion caused by hindsight bias and must be cautious of argument reliant upon ex post reasoning." KSR Int'l Co. v. Teleflex Inc., 127 S. Ct. 1727, 82 USPQ2d at 1397. In the instant case, during the recent telephone interview, it is believed that the Examiner has impermissibly used the instant claims as a guide or roadmap in formulating the rejection, attaching the end of the Dutch seller's auction of Fig. 1 to the beginning of the English seller's auction of Fig. 2, and calling the result the claimed hybrid

auction. However, it is only in the present application that the disadvantages of both types of auctions were identified and a solution to this newly identified disadvantage formulated, as nothing in either the conventional Dutch or English auctions even suggested the utility of a single, two-phase auction as claimed herein – even allowing for the “common sense” or “obvious to try” standards of KSR and its progeny.

Indeed, KSR did not operate to give the Patent Office a dispensation from the need to articulate sound reasons for rejecting the claims, with factual support:

**[R]ejections on obviousness grounds cannot be sustained by mere conclusory statements; instead, there must be some articulated reasoning with some rational underpinning to support the legal conclusion of obviousness. (In re Kahn, 441 F. 3d 977, 988 (CA Fed. 2006) cited with approval in KSR)**

That is, mere conclusory statements that because Dutch seller’s auctions existed and that English seller’s auction’s existed, that the claimed embodiments would have been obvious is believed to be contrary to §103(a) **and** KSR.

However, the outstanding rejection of the claims is based upon a combination of the background of the present application and Boarman et al. Boarman et al, however, does not provide any teachings or suggestions that would lead the person of ordinary skill to develop the present claimed embodiments.

Boarman et al. teach methods and systems for proxy-based online “Dutch” auction services. Even though Boarman et al. call their auction a “Dutch” auction, the term “Dutch auction” does not refer to the same type of auction as is shown in the present Fig. 1. In Boarman et al., the prices go up as bidding occurs. In the present application, a “Dutch” auction refers to an auction in which a high seed price is established, and the price posted is periodically decreased until a first bid is received. Indeed, Borman et al. tell us, at Col. 5, lines 30-33:

. A valid bid would be above a current minimum bid amount, and for a quantity of items that can be supplied. The auction manager

The “current minimum bid amount” is referred to in Fig. 2 of the present application as the “seed price,” where bidding is set to start. Thereafter, Boarman et al. teaches to the bids are automatically increased up to limits set by the participants, as set out at Col. 5, lines 9-12:

. The present invention automatically increases participants’ bids as required, in accordance with and prioritized relative to the participants’ proxy values, as the auction progresses.

Bidding is done, in Boarman et al., online and by proxy (hence the title of the Boarman patent).

Therefore, combining the background of the present invention with Boarman et al. yields a seeded auction whereby prices are decreased until a first bid is received (the Dutch seller’s auction of Fig. 1), a separate seeded auction is carried out whereby the initial price is seeded and buyers compete and bid against one another by placing increasingly higher bids (the English seller’s auction of Fig. 2), with both auctions carried out via the online system of Boarman et al. in which a minimum bid amount is placed and in which participants’ bids are automatically increased by proxy up to their predetermined maximum bid (their proxy value – see Col. 5, lines 7-13).

It is respectfully submitted that a combination of these prior art teachings does not yield, teach or suggest the claimed embodiments, even when the person of ordinary skill is imbued with a healthy dose of common sense, as advocated by KSR. Indeed, even the combination does not teach or suggest that the beginning of the second phase of a two-phase auction is based upon the results of the first phase of the auction. That is, kindly note claim 1:

**periodically decreasing and posting the current asking price until a first bid is received from a first bidder at the then current asking price, and awarding the item to the first bidder at the then current asking price unless, after the first bid is received, at least one additional bidder bids higher than the first bid within a predetermined time interval after the first bid is received.**

The “one additional bidder” is recited to bid “higher than the first bid” within a predetermined time interval. The first bid, it must be recalled, is the winning bid of the descending phase of the auction, during which the current asking price is periodically decreased, as claimed. A mechanistic approach to examination using KSR would have the Office jam the Dutch seller’s auction (A) of Fig. 1 of the present application together with the English seller’s auction (B) of Fig. 2 of the present application (with or without Boarman et al., who does not add much to the combination), to somehow achieve C, the claimed embodiment.

However, C (the claimed embodiment) is much more than the sum of A and B; namely, an English seller’s auction tacked on to the end of a Dutch seller’s auction. Indeed, simply tacking on an auction as shown in the present Fig. 2 to the end of the auction of Fig. 1 of the present application would not yield the claimed embodiment, with or without Boarman et al. This is because doing so without the knowledge of where to start the bidding during the ascending phase of the auction (the claimed phase during which the additional bidder bids higher than the first (and last) bid received during the descending phase of the two-phase auction) would not achieve the advantages of the claimed embodiments. Indeed, without such knowledge of where to start the ascending phase of the auction, a two-phase auction does not make sense and would be highly inefficient and would not serve the needs of either the seller or the buyer.

Recall that when the buyer having placed the winning bid, whether in a Dutch or English auction as shown in prior art Figs. 1 and 2 of the present application, later believes that he or she may have overpaid for the item, there is an increased risk of default on the part of the buyer.

According to the claimed embodiment, however, the first bidder sets the floor price (good for the buyer who may feel that he or she got a good deal, bad for the seller who may feel that the first bid is too low). However, the ascending part of the claimed hybrid auction during which additional bidders bid higher than the first bid ensures that the final price arrived at will be considered by both buyer and seller to be a fair price, thereby reducing the risk of default by either the seller refusing to sell the item or the buyer refusing to buy the item after the auction. Indeed, when the first bid is placed and additional bids are later received, the ultimate buyer (which may or may not be the person who placed the first bid) is assured that others have bid and are willing to pay almost as much for the item. The seller is also assured that he or she obtained a price that is above the first bid (which may represent a floor price) and has maximized the price for the item through this claimed process, as additional bidders have bid after the first bid. Therefore, both buyer and seller perceive the ultimate selling price as being fair and determined after a fair and competitive process. As both buyer and seller perceive the deal as being fair, they have fewer incentives for non-performance after the conclusion of the auction.

It is only in the claimed embodiments that the proper starting point of the ascending phase of the auction is determined (during which the claimed at least one additional bidder bids higher than the first bid received during the “periodically decreasing and posting” step are received – see claim language “at least one additional bidder bids higher than the first bid within a predetermined time interval after the first bid is received”). Recall that the claimed “first bid” is the first bid received during the phase of the auction in which the prices are periodically decreased and that the additional bid(s) must be higher than this first bid. Common sense, and a full knowledge of Boorman et al. and what the background of the present application calls Dutch and English seller’s auctions, would not lead one of ordinary skill in this art to develop the



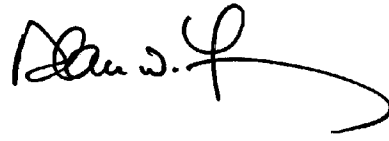
claimed embodiments, absent an impermissible reconstruction based on ex post facto reasoning and hindsight knowledge of the present application.

Note also that claim 1 recites that the claims require “at least one additional bidder bids higher than the first bid within a predetermined time interval after the first bid is received” (underlining for emphasis only). Neither the Dutch seller’s auction of Fig. 1, the English seller’s auction of Fig. 2 nor Boarman et al., teach or suggest that an additional bidder must bid higher than a first bid (received during a phase where the bids periodically decrease), within a predetermined time interval after the first bid is received. Importantly, after the floor price (the claimed first bid) is reached during the phase wherein the “periodically decreasing and posting” steps are carried out, the at least one additional bidder has only a predetermined time interval in which to place a bid that is higher than this first (and only, so far) bid is received. Neither the background nor Boarman et al., whether considered alone or in combination, teaches or suggests such subject matter. Nor would such claimed subject matter somehow “suggest itself” to a person of ordinary skill in the art, even if such hypothetical person applied the KSR-endorsed “common sense” or “obvious to try” standards. The claims, it is submitted define embodiments that are nowhere taught or suggested in either the background of the present application or the Boarman et al. applied to date.

In view of the foregoing, therefore, it is hereby respectfully requested that the 35 U.S.C. §103(a) rejections of the claims be reconsidered and withdrawn.

It is believed that the present application is now in condition for examination on the merits. In the event that the Examiner has any questions relating to this application, the Examiner need only telephone the undersigned, and whatever is required will be done at once.

Respectfully submitted,



Date: March 19, 2008

By: \_\_\_\_\_

Alan W. Young  
Attorney for Applicant  
Registration No. 37,970

YOUNG LAW FIRM, P.C.  
4370 Alpine Road, Suite 106  
Portola Valley, CA 94028  
Tel.: (650) 851-7210  
Fax: (650) 851-7232

C:\YLF\CLIENTS\ORCL\5734\5734 AMEND.2.doc